

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Southeastern Oakland County Water Auth.	County Oakland
Fiscal Year End June 30, 2006	Opinion Date August 11, 2006	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248.952.5000		
Street Address 5750 New king St Suite 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas E. Darling, CPA <small>Digitally signed by Thomas E. Darling, CPA DN: cn=Thomas E. Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2006.12.21 16:12:04 -0500</small>		Printed Name Thomas E. Darling, CAP		License Number A246550



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2006**

**SOUTHEASTERN OAKLAND COUNTY**  
**WATER AUTHORITY**  
**Basic Financial Statements and Supplementary Information**  
**For the Year Ended June 30, 2006**

**Table of Contents**

---

	<b><u>Page</u></b>
<b><i>FINANCIAL SECTION</i></b>	
Independent Auditors' Report .....	1 - 2
Management's Discussion and Analysis .....	3 - 9
<b>Basic Financial Statements:</b>	
Statement of Net Assets .....	10
Statement of Revenues, Expenses and Changes in Net Assets .....	11
Statement of Cash Flows .....	12
Notes to the Financial Statements .....	13 - 23
<b>Required Supplementary Information:</b>	
Schedule of Funding Progress – Employees Retirement System .....	24
<b>Supplementary Schedules:</b>	
Schedule of Budget Analysis .....	25
Schedule of Budgeted Operating Expense Analysis .....	26 - 31
Schedule of Accounts Receivable and Analysis of Charges .....	32
Schedule of Working Capital Analysis .....	33
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government</i> <i>Auditing Standards</i> .....</b>	
	34 - 35

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

## **INDEPENDENT AUDITORS' REPORT**

August 11, 2006

Members of the Board  
Southeastern Oakland County  
Water Authority  
Oakland County, Michigan

We have audited the accompanying basic financial statements of the ***Southeastern Oakland County Water Authority***, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the ***Southeastern Oakland County Water Authority's*** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Southeastern Oakland County Water Authority***, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006, on our consideration of the ***Southeastern Oakland County Water Authority's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 3 through 9 and the Schedule of Funding Progress on Page 24 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the ***Southeastern Oakland County Water Authority's*** basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

As management of the Southeastern Oakland County Water Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

**Financial Highlights**

Water sales were substantially under budget for the fiscal year ended June 30, 2006. Actual water sales were \$12,939,892 compared to budgeted water sales of \$13,672,656. For the fiscal year, sales were \$732,764 or 5.4%, less than budgeted. Water sales were lower than budgeted for each month of the fiscal year. As a result, total revenues were \$602,467 below budget. Operating expenses were also below budget by \$723,414 leaving the Authority with sufficient revenue to cover the bond principal and interest payments. The amount available for reserves and capital outlays was \$704,559, which was \$121,000 greater than budgeted. The debt coverage ratio was 202% for the fiscal year, which was higher than the 184% budgeted.

A significant rate increase (\$0.90 per thousand cubic feet) was put into effect on July 1, 2006 in order to off-set the recent increase of water purchased from the City of Detroit and the increase of the operation of the Authority.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial statements.** The *financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Authority is a single purpose business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of the Authority includes providing water services to member communities.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Please refer to the Notes to the Financial Statements section of this report.

**Other information.** In addition to the basic financial statements, this report also presents certain *required supplementary information*. This is limited to defined benefit pension plan information and to this management discussion and analysis.

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$ 12,166,801 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its member communities; consequently, these assets are *not* available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Authority's net assets is legally restricted for a specific purpose as imposed by sources outside the Authority. Additional information on the Authority's restricted net assets can be found in Note II-E of this report.



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Authority Net Assets**

	<b>Business-Type Activities</b>	
	<b>2006</b>	<b>2005</b>
Current assets	\$ 1,634,249	\$ 1,701,360
Restricted assets	1,306,336	1,340,871
Other assets	288,783	323,000
Capital assets, net	16,798,921	17,285,482
Total assets	<u>20,028,289</u>	<u>20,650,713</u>
Current liabilities	2,630,939	2,779,448
Noncurrent liabilities	5,817,255	6,271,846
Total liabilities	<u>8,448,194</u>	<u>9,051,294</u>
Net assets:		
Invested in capital assets, net of related debt	11,148,921	11,155,482
Restricted assets	719,630	752,039
Unrestricted (deficit)	<u>298,250</u>	<u>(308,102)</u>
Total net assets	<u><u>\$ 12,166,801</u></u>	<u><u>\$ 11,599,419</u></u>

Operating activities and depreciation increased the Authority's net assets by \$693,374 , accounting for 122% of the change in the Authority's net assets for the current year. This was primarily due to the July 1, 2005 water sales rate increase, lower operating expenses and higher non-water revenue. Non-operating revenue and expense accounted for the remaining \$125,992 decrease in net assets. A key element of this decrease was an improvement over prior year's figure due to higher interest income.

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

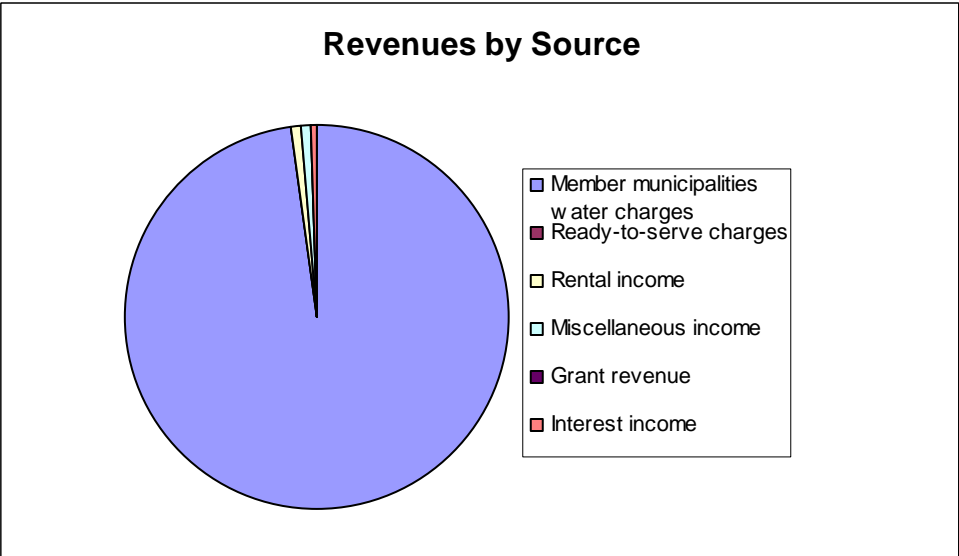
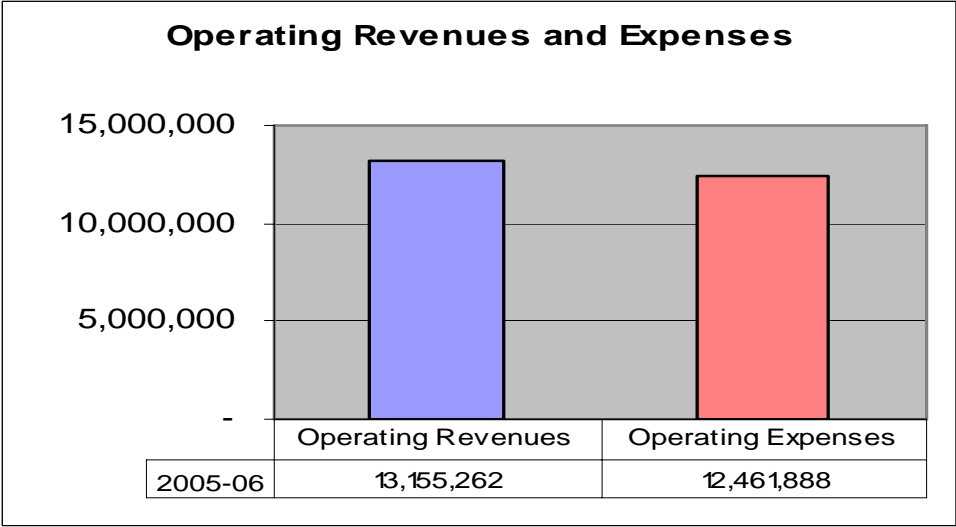
---

**Authority Changes in Net Assets**

	<b>Business-Type Activities</b>	
	<b>2006</b>	<b>2005</b>
Revenue:		
Charges for services	\$ 12,948,947	\$ 12,690,953
Rental	119,449	85,044
Operating grants and contributions	27,265	56,385
Interest and other	147,022	29,790
Total revenue	<u>13,242,683</u>	<u>12,862,172</u>
Expenses:		
Operating expenses	11,844,711	12,199,771
Depreciation and amortization	617,177	622,421
Interest expense	213,413	227,663
Total expenses	<u>12,675,301</u>	<u>13,049,855</u>
Change in net assets	567,382	(187,683)
Net assets, beginning of year	<u>11,599,419</u>	<u>11,787,102</u>
Net assets, end of year	<u><u>\$ 12,166,801</u></u>	<u><u>\$ 11,599,419</u></u>

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY ROYAL OAK, MICHIGAN

## MANAGEMENT’S DISCUSSION AND ANALYSIS



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**Capital Asset and Debt Administration**

**Capital assets.** The Authority's investment in capital assets for its activities as of June 30, 2006, amounted to \$16,798,921 (net of accumulated depreciation). This investment in capital assets includes land, buildings, pumping stations, elevated tanks, reservoirs, equipment and infrastructure. The total decrease in the Authority's investment in capital assets for the current fiscal year was -3%.

Major capital asset events during the current fiscal year included the following:

- Replacement of the heating and air conditioning system for the Webster office
- Purchase of two trucks.
- Additional capital projects were deferred to future fiscal years in order to improve the level of working capital.

**Authority Capital Assets**  
(net of depreciation)

Land	\$ 1,026,171
Construction in progress	58,637
Pumping stations	3,531,951
Elevated tanks	1,978,997
Reservoirs	2,292,791
Scada system	1,718,187
Transmission mains and accessories	15,660,626
Meters	1,076,840
Webster office	293,435
Equipment and other assets	1,419,313
Less: accumulated depreciation	<u>(12,258,027)</u>
Total capital assets, net	<u>\$ 16,798,921</u>

Additional information on the Authority capital assets can be found in Note II-C of this report.

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**Long-term debt.** At the end of the current fiscal year, the Authority had total debt outstanding of \$5,650,000 made up entirely of the Series 2003 water system revenue refunding bonds.

The Authority's total debt decreased by \$480,000 or (7.8%) during the current fiscal year.

The Authority is currently rated for Baa1 by Moody's and A- by Standard & Poors for general obligation bond issuance.

Additional information on the Authority's long-term debt can be found in Note II-D of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Authority's budget for the 2006-2007 fiscal year:

- Increased employee wages cost of 3%.
- Increased health insurance cost of 5%.
- Water sales to member communities remains at its current level and was established using a 5 year average.
- Water rates were increased by \$0.90 per 1,000 cubic feet. This increase reflects the recent \$0.62 increase for water purchased from the City of Detroit and a \$0.28 increase for the operations of the Authority.
- Capital expenditures were estimated at \$820,000 and included 2 major projects; a new meter for the City of Southfield and replacement of a water main in conjunction with the reconstruction of 11 Mile Road between Woodward and Greenfield.
- A debt coverage ratio of 206% was budgeted in order to fund the capital projects identified above.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 3910 W. Webster, Royal Oak, Michigan 48073.

***BASIC FINANCIAL  
STATEMENTS***

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
STATEMENT OF NET ASSETS  
June 30, 2006**

<b>ASSETS</b>	
<b>Current assets</b>	
Accounts receivable	\$ 1,333,352
Grant receivable	20,728
Other receivable - related party	252,347
Other current assets	27,822
<b>Total current assets</b>	<b>1,634,249</b>
Restricted cash	1,306,336
<b>Capital assets</b>	
Not being depreciated	1,084,808
Being depreciated (net)	15,714,113
<b>Total capital assets</b>	<b>16,798,921</b>
<b>Other assets</b>	
Bond discount and issuance costs (net of amortization)	288,783
<b>Total assets</b>	<b>20,028,289</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Cash overdraft	275,785
Vouchers payable	1,067,878
Other current liabilities	113,864
<b>Total current liabilities from unrestricted assets</b>	<b>1,457,527</b>
Current liabilities payable from restricted assets	586,706
<b>Total current liabilities</b>	<b>2,044,233</b>
<b>Noncurrent liabilities</b>	
Bond indebtedness	5,650,000
Accrued compensated absences	146,806
Arbitrage rebate payable	20,449
<b>Total noncurrent liabilities</b>	<b>5,817,255</b>
<b>Total liabilities</b>	<b>7,861,488</b>
<b>Net assets</b>	
Invested in capital assets, net of related deb	11,148,921
Restricted assets	719,630
Unrestricted	298,250
<b>Total net assets</b>	<b>\$ 12,166,801</b>

The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2006**

---

**OPERATING REVENUES**

Member municipalities water charge:	\$ 12,939,892
Ready-to-serve charges	9,055
Rental income	119,449
Miscellaneous income	86,866

<b>Total operating revenues</b>	<b><u>13,155,262</u></b>
---------------------------------	--------------------------

**OPERATING EXPENSES**

Source of supply	9,842,221
Operating, maintenance and administrative	2,002,490

<b>Total operating expenses</b>	<b><u>11,844,711</u></b>
---------------------------------	--------------------------

Operating income before depreciation and amortization	1,310,551
Depreciation and amortization	617,177

<b>Net operating income</b>	<b><u>693,374</u></b>
-----------------------------	-----------------------

**NONOPERATING REVENUES (EXPENSE)**

Grant revenue	27,265
Interest income	60,156
Bond interest expense	(213,413)

<b>Total nonoperating revenue (expense)</b>	<b><u>(125,992)</u></b>
---	-------------------------

<b>Change in net assets</b>	<b>567,382</b>
-----------------------------	----------------

Net assets, beginning of year	<u>11,599,419</u>
-------------------------------	-------------------

<b>Net assets, end of year</b>	<b><u><u>\$ 12,166,801</u></u></b>
--------------------------------	------------------------------------

The accompanying notes are an integral part of these financial statements.



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2006**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 13,221,495
Receipts from related party	(548,833)
Payments to suppliers	(11,230,140)
Payments to employees	(943,795)
<b>Net cash provided by operating activities</b>	<b>498,727</b>
<b>Cash flows from noncapital financing activities</b>	
Proceeds from operating grants	37,286
<b>Cash flows from capital and related financing activities</b>	
Purchases of capital assets	(101,006)
Proceeds from sale of fixed asset	3,860
Principal paid on bond indebtedness	(480,000)
Interest and fees paid on bond indebtedness	(215,538)
<b>Net cash used in capital and related financing activities</b>	<b>(792,685)</b>
<b>Cash flows from investing activities</b>	
Interest received on investment	60,156
<b>Net decrease in cash and cash equivalents</b>	<b>(196,516)</b>
Cash and cash equivalents, beginning of year	1,502,851
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,306,336</b>
<b>Statement of net assets classification of cash and cash equivalents</b>	
Cash and cash equivalents	\$ -
Restricted assets	1,306,336
<b>Total</b>	<b>\$ 1,306,336</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 693,374
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation and Amortization	617,177
Loss on sale of fixed assets	746
Decrease in accounts receivable	(129,971)
Increase in other assets	25,081
Decrease in vouchers payable and other liabilities	(983,465)
Cash over draft	275,785
<b>Total adjustments</b>	<b>(194,647)</b>
<b>Net cash provided by operating activities</b>	<b>\$ 498,727</b>

The accompanying notes are an integral part of these financial statements.

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. The Reporting Entity**

The Southeastern Oakland County Water Authority (“the Authority” or “SOCWA”), was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Acts of 1952. The Authority provides a water supply system primarily to eleven municipal communities in Oakland County, Michigan. The Authority is governed by a Board of Trustees, one member representing each constituent municipality. Principal funding for the Authority is derived from water charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

#### **B. Basis of Presentation - Government-Wide Statements**

***Government-wide financial statements.*** The statement of net assets and statement of revenues, expenses and changes in net assets report information on all of the activities of the primary government (the Authority). The Authority engages in only business-type activities. Business-type activities rely to a significant extent on fees and charges for services.

#### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

***Proprietary fund financial statements.*** The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Authority’s enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The Authority reports the following major proprietary fund:

*Water.* This fund accounts for the activities of the Authority's water system.

The financial statements of the Authority follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

### **D. Assets, Liabilities and Equity**

#### ***Deposits and investments***

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts.

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

### ***Other Assets***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the financial statements.

### ***Restricted Assets***

Certain resources of the Authority are set aside for debt repayment and are classified as restricted assets on the statement of net assets because their use is limited to those types of expenses.

### ***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

The depreciation on these assets are charged as an expense against the operations on a straight-line basis over the estimated useful lives of the assets, which will range from five (5) to one hundred (100) years depending on the nature of the assets.

<u>Asset Type</u>	<u>Depreciable Life</u>
Pumping stations	10 - 50
Elevated tanks	10 - 50
Reservoirs	10 - 50
Scada system	10 - 40
Transmission mains and accessories	25 - 100
Meters	10 - 30
Webster office	10 - 25
Equipment and other assets	5 - 25

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

---

***Compensated Absences***

The Authority allows union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year. Once an employee has accumulated not less than 480 hours (60 days) and no more than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for half of all unused sick leave credits earned during the immediately preceding fiscal year. The Authority allows non-union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 480 hours (60 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year.

**II. DETAILED NOTES**

**A. Deposits, Investments and Securities Lending**

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2006:

	<u>Deposits</u>	<u>Investment</u>	<u>Total</u>
Financial statement captions			
Restricted cash	<u>\$ 551,800</u>	<u>\$ 754,535</u>	<u>\$ 1,306,336</u>

***Statutory Authority***

**The Authority is authorized by statute to invest surplus funds in the following:**

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Board of Commissioners is authorized to designate depositories for the Authority's funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Authority's deposits are in accordance with statutory authority.

As of year-end, the Authority had a pooled investments accounts balance of \$1,209,739 with Comerica bank. The investments are not rated and do not have a maturity date.

### **Investment and Deposit Risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Authority investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment, if available, are identified above for investments held at year-end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$2,343,073 of the total \$2,443,073 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. The Authority's total investments of \$1,209,739 are in short-term investment pools that are registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

### **B. Receivables**

Receivables consist of amounts due from member communities and other water sales customers. These receivables are considered 100% collectable and as such, no allowance for uncollectible accounts has been established.

### **C. Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated -				
Land	\$ 1,026,171	\$ -	\$ -	\$ 1,026,171
Construction in progress	8,630	50,007	-	58,637
Total capital assets not being depreciated	1,034,801	50,007	-	1,084,808
Capital assets, being depreciated:				
Pumping stations	3,520,004	11,947	-	3,531,951
Elevated tanks	1,978,997	-	-	1,978,997
Reservoirs	2,292,791	-	-	2,292,791
Scada system	1,718,187	-	-	1,718,187
Transmission mains and accessories	15,660,626	-	-	15,660,626
Meters	1,076,840	-	-	1,076,840
Webster office	293,435	-	-	293,435

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

---

	Beginning Balance	Increases	Decreases	Ending Balance
Equipment and other assets	\$ 1,431,436	\$ 39,052	\$ (51,175)	\$ 1,419,313
Total capital assets being depreciated	<u>27,972,316</u>	<u>50,999</u>	<u>(51,175)</u>	<u>27,972,140</u>
Less accumulated depreciation	<u>(11,721,635)</u>	<u>(582,961)</u>	<u>46,569</u>	<u>(12,258,027)</u>
Total capital assets being depreciated, net	<u>16,250,681</u>	<u>(531,962)</u>	<u>(4,606)</u>	<u>15,714,113</u>
Business-type activities capital assets, net	<u><u>\$ 17,285,4812</u></u>	<u><u>\$ (481,955)</u></u>	<u><u>\$ (4,606)</u></u>	<u><u>\$ 16,798,921</u></u>

**D. Long-term Debt**

The government issues bonds when the government pledges income derived from the construction or acquired assets to pay debt service. Revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Business-type activities		
Series 2003 refunding bonds	2.25%-4.25%	<u>\$6,130,000</u>

	<u>Principal</u>	<u>Interest and Amortization</u>
2007	\$ 480,000	\$ 233,229
2008	575,000	220,291
2009	575,000	205,054
2010	600,000	187,054
2011	625,000	149,588
2012-2016	<u>3,275,000</u>	<u>545,567</u>
	<u>\$ 6,130,000</u>	<u>\$ 1,540,783</u>



# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

*Advance refundings.* During fiscal year 2004, the Authority issued \$6,980,000 in water supply system revenue refunding bonds and transferred \$6,918,500 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$6,850,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Assets. This advanced refunding was undertaken to reduce total debt service payments by \$472,341. On June 30, 2006, \$6,130,000 remained outstanding.

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
2003 refunding bonds	\$ 6,605,000	\$ -	\$ (475,000)	\$ 6,130,000	\$ 480,000
Bond discount, issuance costs and deferred loss	(323,000)	-	34,217	(288,783)	(34,217)
Accrued compensated absences	121,397	25,409	-	146,806	-
Arbitrage rebate payable	20,449	-	-	20,449	-
	<u>\$ 6,423,846</u>	<u>\$ 25,409</u>	<u>\$ (440,783)</u>	<u>\$ 6,008,472</u>	<u>\$ 445,783</u>

### E. Restrictions of Net Assets

Restricted net assets on the Statement of Net Assets are legally restricted for a specific purpose as imposed by sources outside of the Authority.

The schedule of restricted net assets is as follows:

	<u>Restricted Net Assets</u>
Surplus fund	\$ 20
Construction fund	(30,772)
Improvement fund	(5,027)
Operation and maintenance reserve	257
Replacement reserve	50,396
Bond reserve accounts	<u>1,291,462</u>
Total restricted cash	1,306,336
Less: Current liabilities from restricted cash	<u>(586,706)</u>
Total restricted net assets	<u>\$ 719,630</u>

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

### **III. OTHER INFORMATION**

#### **A. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the Michigan Municipal Risk Management Authority and the Michigan Municipal League sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, worker's compensation and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers Compensation Fund provide that the pools will be self sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims have not exceeded coverage in any of the past three years.

#### **B. Related Party Transactions**

The Authority has developed a cost sharing strategy for certain administrative salaries, operating expenses and capital asset expenses with the Southeastern Oakland County Resource Recovery Authority (SOCRRA). In addition to these shared costs, the Authority also charges and receives an annual office rental fee from SOCRRA in the amount of \$45,000. These cost sharing arrangements resulted in the Authority charging SOCRRA \$490,033 for the year ended June 30, 2006. As of June 30, 2006, the amount of payables due from SOCRRA was \$252,347.

#### **C. Postretirement Benefits Other than Pensions**

##### **Non-Union Employees**

The Authority sponsors a retiree health care plan (the "Plan"). The plan is a defined contribution public retiree health care plan established effective January 1, 2002. The purpose of the plan is to accumulate funds to fully provide for the funding of health care benefits for the Authority's retirees and beneficiaries based on eligibility criteria established by the Board. Benefits under the plan are administered by I.C.M.A. and provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. The Authority Board has the authority to establish and amend benefit provisions.

At June 30, 2006 participants in the plan consisted of:

Retirees and beneficiaries currently receiving benefits	0
Active employees	<u>9</u>
Total	<u>9</u>

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

Employees contribute to the plan based upon eligible payroll. The contribution percentage for the year-ended June 30, 2006 was 5% resulting in contributions of \$29,287. Authority contributions are not required. A separate trust fund has been established for these assets and as such, these assets are not shown as part of the Authority's restricted assets.

### **Union Employees**

The Authority provides postretirement health care benefits to union employees and their dependents as established by Board resolution. There are currently twenty three retirees and dependents that receive these benefits. Expenses are recognized as insurance premiums become due and are netted against co-pays that are required from certain participants. During the year ended June 30, 2006, \$100,431 was recognized for postretirement health care.

### **D. Defined Benefit Pension Plan**

#### **Plan Description**

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377, [www.mersofmich.com](http://www.mersofmich.com).

All full-time Authority employees are eligible to participate in MERS. Service retirement benefits have a vesting period of 10, 15, 20 and 25 years of service depending on the employees age at retirement. Payment of benefits is based on the benefit program in effect as of the date of termination of membership. Payment is based on 2.25% for union employees and 2.5% for salaried employees, of the three-year final average compensation multiplied by credited years of service. These benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees.

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

### Funding Policy

The Authority is required to contribute at an actuarially determined rate; the rate for the valuation year ending December 31, 2003 is \$7,629 per month for union employees and 23.49% of annual covered payroll for salaried employees. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority or through negotiations with the collective bargaining unit representing union employees.

### Annual Pension Cost

For the year ended June 30, 2006, the Authority's annual pension cost of \$157,919 for MERS was equal to the Authority's required and actual contributions. The required contributions were determined as part of the December 31, 2003 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investments of present and future assets of 8.0% compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years for salaried employees and 26 years for union employees.

### **Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 118,189	100%	\$ -
6/30/05	145,773	100%	-
6/30/06	157,919	100%	-

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**DEFINED BENEFIT PENSION PLAN INFORMATION**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 4,274,708	\$ 5,606,826	\$ 1,332,118	76%	\$ 1,198,129	111%
12/31/02	4,232,401	6,170,873	1,938,472	69%	1,221,613	159%
12/31/03	4,367,033	6,557,028	2,189,995	67%	1,235,987	177%
12/31/04	4,490,251	6,544,301	2,054,050	69%	1,275,452	161%
12/31/05	4,644,858	6,729,167	2,084,309	69%	1,273,904	164%

## ***SUPPLEMENTARY SCHEDULES***

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## SCHEDULE OF BUDGET ANALYSIS

	July 1, 2005 to June 30 2006		
	Budgeted	Actual	Variances Favorable (Unfavorable)
Revenue			
Sale of water	\$ 13,672,656	\$ 12,939,892	\$ (732,764)
Ready-to-serve charges	9,054	9,055	1
Grant revenue	36,000	27,265	(8,735)
Rental income	85,440	119,449	34,009
Interest on investments	18,000	60,156	42,156
Water analysis - laboratory and miscellaneous income	24,000	86,866	62,866
<b>Total revenue</b>	<b>13,845,150</b>	<b>13,242,683</b>	<b>(602,467)</b>
Operating expenses	12,568,125	11,844,711	723,414
Revenue in excess of operating expenses	1,277,025	1,397,972	120,948
Amount of bond interest and bond maturities			
Bond interest	213,413	213,413	-
Bond maturities	480,000	480,000	-
Total bond interest and bond maturities	693,413	693,413	-
<b>Amount available for reserves and     capital outlay</b>	<b>\$ 583,612</b>	<b>\$ 704,559</b>	<b>\$ 120,948</b>



# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	July 1, 2005 to June 30 2006		
	Budgeted	Actual	Variances Favorable (Unfavorable)
Source of Supply			
Pump Station Operations			
Water purchased for resale	\$ 10,535,600	\$ 9,842,221	\$ 693,379
Meters			
Labor and supervision	30,000	25,864	4,136
Power and light	7,000	5,636	1,364
Cellular telephone	6,000	5,745	255
Maintenance	-	26	(26)
Maintenance of equipment	20,000	11,069	8,931
Total meters expense	63,000	48,340	14,660
Mains			
Labor and supervision	35,000	26,512	8,488
Maintenance	15,000	3,558	11,442
Maintenance and equipment	-	3,376	(3,376)
Miss Dig	9,500	8,774	726
Total mains expense	59,500	42,220	17,280
Webster			
Pump Station Operations			
Labor and supervision	379,000	377,073	1,927
Utilities	8,000	6,719	1,281
Power and light	50,000	32,098	17,902
Maintenance of equipment	9,000	4,884	4,116
Maintenance of building	8,000	9,126	(1,126)
Maintenance of property and grounds	6,000	4,516	1,484
Supplies	14,000	16,013	(2,013)
Total Webster pump station expense	474,000	450,429	23,571
Reservoirs Operations			
Maintenance	1,000	830	170
Total Webster reservoirs expense	1,000	830	170

Continued....

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2005 to June 30 2006			
	Budgeted	Actual	Variances Favorable (Unfavorable)
Tank Operation			
Maintenance	\$ 750	\$ 1,406	\$ (656)
Total Webster tank expense	750	1,406	(656)
Computer operations			
Labor and supervision	11,000	14,983	(3,983)
Utilities	2,500	1,420	1,080
Maintenance	20,000	7,094	12,906
Computer software maintenance	-	12,485	(12,485)
Total Webster computer expense	33,500	35,982	(2,482)
Purification			
Labor and supervision	40,000	40,457	(457)
Maintenance of equipment	500	-	500
Supplies	15,000	38,762	(23,762)
Total Webster purification expense	55,500	79,219	(23,719)
Transportation			
Labor and supervision	15,000	13,186	1,814
Maintenance and equipment	10,000	12,389	(2,389)
Fuel	25,000	24,442	558
Total Webster transportation expense	50,000	50,017	(17)
Total Webster expense	614,750	617,883	(3,133)
Shafter			
Pump Station Operations			
Labor and supervision	15,000	12,920	2,080
Utilities	3,000	3,269	(269)
Power and light	20,000	9,285	10,715
Telephone	600	440	160
Maintenance of property and grounds	2,000	10	1,990
Total Shafter expense	40,600	25,924	14,676

Continued....

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2005 to June 30 2006			
	Budgeted	Actual	Variances Favorable (Unfavorable)
Lamb			
Pump Station Operations			
Labor and supervision	\$ 15,000	\$ 13,082	\$ 1,918
Utilities	3,000	2,823	177
Power and light	30,000	13,212	16,788
Telephone	300	223	77
Maintenance of equipment	5,000	496	4,504
Maintenance of building	1,000	314	686
Total Lamb expense	54,300	30,150	24,150
12 Mile Meter			
Meter Station Operations			
Labor and supervision	13,000	7,827	5,173
Utilities	1,050	715	335
Power and light	500	388	112
Telephone	300	220	80
Maintenance of equipment	2,000	140	1,860
Maintenance of building	500	-	500
Maintenance of property and grounds	500	91	409
Total 12 Mile meter expense	17,850	9,381	8,469
Gare			
Pump Station Operations			
Labor and supervision	22,000	20,396	1,604
Utilities	5,000	3,561	1,439
Power and light	15,000	10,672	4,328
Telephone	300	195	105
Maintenance of equipment	5,000	731	4,269
Maintenance of building	500	75	425
Maintenance of property and grounds	1,000	514	486
Total Gare pump station expense	48,800	36,144	12,656
Reservoirs			
Maintenance	500	270	230
Maintenance of equipment	-	1,500	(1,500)
Total Gare reservoirs expense	500	1,770	(1,270)
Total Gare expense	49,300	37,914	11,386

Continued....

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2005 to June 30 2006			
	Budgeted	Actual	Variances Favorable (Unfavorable)
Oliver			
Pump Station Operations			
Labor and supervision	\$ 14,000	\$ 8,192	\$ 5,808
Utilities	1,500	1,763	(263)
Power and light	2,000	1,079	921
Telephone	300	233	67
Maintenance of equipment	1,000	24	976
Maintenance of building	500	-	500
Maintenance of property and grounds	500	268	232
Total Oliver expense	19,800	11,559	8,241
14 Mile/Lahser			
Meter Station Operations			
Labor and supervision	6,000	1,180	4,820
Power and light	325	238	87
Maintenance of equipment	2,000	22	1,978
Total 14 Mile/Lahser expense	8,325	1,440	6,885
Quarton/Cummings			
Meter Station Operations			
Labor and supervision	6,000	1,390	4,610
Maintenance	300	77	223
Maintenance of equipment	1,000	-	1,000
Total Quarton/Cummings expense	7,300	1,467	5,833
14 Mile Tank and Pump Station			
Pump Station Operations			
Labor and supervision	22,000	17,263	4,737
Utilities	2,000	2,354	(354)
Power and light	7,200	5,413	1,787
Telephone	300	245	55
Maintenance of equipment	9,000	3,005	5,995
Maintenance of building	500	-	500
Maintenance of property and grounds	2,000	1,014	986
Total 14 Mile tank and pump expense	43,000	29,294	13,706

Continued....

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2005 to June 30 2006			
	Budgeted	Actual	Variances Favorable (Unfavorable)
Reservoir Operations			
Maintenance	\$ 500	\$ 415	\$ 85
Total 14 Mile reservoir expense	500	415	85
 Tank Operations			
Maintenance	500	3,937	(3,437)
Total 14 Mile tank expense	500	3,937	(3,437)
Total 14 Mile expense	44,000	33,646	10,354
 Samoset			
Tank Operations			
Labor and supervision	13,000	9,597	3,403
Utilities	650	693	(43)
Power and light	500	304	196
Maintenance of equipment	1,200	3,847	(2,647)
Maintenance of property and grounds	750	295	455
Total Samoset expense	16,100	14,736	1,364
 Buchanan			
Pump Station Operations			
Labor and supervision	13,000	6,998	6,002
Utilities	1,200	1,598	(398)
Power and light	1,000	147	853
Telephone	300	241	59
Maintenance of equipment	2,000	917	1,083
Maintenance of building	500	-	500
Maintenance of property and grounds	250	487	(237)
Total Buchanan pump expense	18,250	10,388	7,862
 Reservoir Operations			
Maintenance	500	-	500
Total Buchanan reservoir expense	500	-	500
Total Buchanan expense	18,750	10,388	8,362

Continued....

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	July 1, 2005 to June 30 2006		
	Budgeted	Actual	Variances Favorable (Unfavorable)
Engineering			
Transportation			
Fuel	\$ -	\$ 2,714	\$ (2,714)
Total engineering transportation expense	-	2,714	(2,714)
Administrative			
Labor and supervision	66,500	99,910	(33,410)
Administrative and office	1,500	11,146	(9,646)
Personnel improvement	500	130	370
Travel, conference	1,000	74	926
Total engineering administrative expense	69,500	111,260	(41,760)
Total engineering expense	69,500	113,974	(44,474)
Administrative and General			
Labor and supervision	204,900	270,341	(65,441)
Administrative and office	50,000	40,015	9,985
Personnel improvement	1,500	2,854	(1,354)
Travel, conference	2,500	1,505	995
Telephone - office	13,000	10,339	2,661
Legal	6,000	5,883	117
Audit	9,000	9,000	-
Contracted services	-	1,115	(1,115)
Social security	65,200	75,849	(10,649)
Retirement plan	141,500	157,919	(16,419)
General	61,100	51,195	9,905
Group	331,200	320,294	10,906
Worker's Compensation	20,900	25,793	(4,893)
Permit and bonds	6,000	3,484	2,516
Grant expense	36,000	27,265	8,735
Public education	-	117	(117)
Paying agent	650	500	150
Total administrative expense	949,450	1,003,468	(54,018)
<b>Total Operating Expenses</b>	<b>\$ 12,568,125</b>	<b>\$ 11,844,711</b>	<b>\$ 723,414</b>

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF ACCOUNTS RECEIVABLE  
AND ANALYSIS OF CHARGES**

	<b>Accounts Receivable Balance July 1, 2005</b>	<b>Water Consumption (1M Cubic Feet)</b>	<b>Total Water Charges</b>	<b>Ready-To- Serve Charges</b>	<b>Total Billing For Year</b>	<b>Amount Due at Beginning of Year Plus Billing For Year</b>	<b>Total Paid</b>	<b>Accounts Receivable Balance June 30, 2006</b>
Municipalities								
Berkley	\$ 56,943	58,706	\$ 578,251	\$ -	\$ 578,251	\$ 635,194	\$ 583,272	\$ 51,922
Beverly Hills	71,603	62,031	611,007	-	611,007	682,610	620,674	61,936
Bingham Farms	19,810	15,137	149,102	3,018	152,121	171,931	152,775	19,156
Birmingham	143,649	130,757	1,287,958	-	1,287,958	1,431,607	1,279,200	152,407
Clawson	46,305	45,396	447,153	-	447,153	493,458	451,935	41,523
Huntington Woods	31,646	28,598	281,692	-	281,692	313,338	285,408	27,931
Lathrup Village	22,160	21,509	211,867	-	211,867	234,027	213,018	21,009
Pleasant Ridge	17,805	15,758	155,212	-	155,212	173,017	154,314	18,703
Royal Oak	312,655	312,066	3,073,845	-	3,073,845	3,386,500	3,094,966	291,533
Southfield	649,570	598,305	5,893,305	6,036	5,899,341	6,548,911	5,948,921	599,990
Rackham	4,099	1,889	18,603	-	18,603	22,702	19,696	3,006
Detroit Zoo	23,342	23,543	231,897	-	231,897	255,239	211,254	43,985
Adjustments	-	-	-	-	-	-	-	251
<b>Total</b>	<b><u>\$ 1,399,587</u></b>	<b><u>1,313,695</u></b>	<b><u>\$ 12,939,892</u></b>	<b><u>\$ 9,054</u></b>	<b><u>\$ 12,948,947</u></b>	<b><u>\$ 14,348,534</u></b>	<b><u>\$ 13,015,433</u></b>	<b><u>\$ 1,333,352</u></b>

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF WORKING CAPITAL ANALYSIS**

---

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Total current unrestricted assets	\$ 1,634,249	\$ 1,701,360
Less current unrestricted liabilities	<u>1,457,527</u>	<u>2,190,616</u>
Total working capital	<u>176,722</u>	<u>(489,256)</u>
Annual operating expenses	<u>11,844,711</u>	<u>12,199,771</u>
Percentage of working capital to annual operating expense	<u><u>1.49%</u></u>	<u><u>-4.01%</u></u>





**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

August 11, 2006

To the Honorable Members of the Board  
Southeastern Oakland County  
Water Authority  
Oakland County, Michigan

We have audited the basic financial statements of the *Southeastern Oakland County Water Authority* as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *Southeastern Oakland County Water Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *Southeastern Oakland County Water Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

August 11, 2006

To the Members of the Board  
Southeastern Oakland County  
Water Authority  
Royal Oak, Michigan

In planning and performing our audit of the basic financial statements of the ***Southeastern Oakland County Water Authority*** for the year ended June 30, 2006, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 11, 2006, on the basic financial statements of the ***Southeastern Oakland County Water Authority***.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Authority in implementing the recommendations.

We would like to thank the staff and management of the ***Southeastern Oakland County Water Authority*** for their assistance and cooperation in completing the audit.

*Rehmann Robson*

**A.) CAPITAL ASSETS SUBSIDIARY LEDGER (Prior year)**

During our audit we noted that the subsidiary ledger for capital assets did not trace directly to the general ledger control accounts by the categories as described in the notes to the financial statements. We did however note that the total of capital assets in the subsidiary ledger tied in total to the control accounts in the general ledger.

**Recommendation**

We would recommend that the Authority consider grouping capital assets by category in which it desires to display in the notes to the financial statements. In addition we would recommend that the Authority consider establishing general ledger control accounts for both cost and accumulated depreciation for these categories. We believe that this will aide the Authority in reconciling capital assets at year end and to simplify and expose any areas in which the subsidiary ledger does not trace to the general ledger.

**Status**

As of August 11, 2006, the last day of our field work, the Authority has not implemented a system to correct the reportable condition as recommended by us. However, upon discussing the issue with the client, we were informed that the Authority is in the process of acquiring a software package that will help in grouping capital assets by category in consistency with the financial statements.

**B.) CASH**

During our audit we noted that intra-bank transfer authorization forms used to transfer funds between bank accounts are authorized/signed and recorded by the Accountant. An effective internal control should always separates between authorization, record keeping and custody.

**Recommendation**

To effectively separate authorization and record keeping duties noted above, we would recommend that the duty of authorizing/signing the intra-bank and/or inter-bank transfer authorization forms be delegated to the General Manager, and the duty to record the transfers be delegated to the Accountant.